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Committee on Energy and Commerce
Subcommittee on Energy and Air Quality

Hearing on "Climate Change: Competitiveness Concerns and Prospects for Engaging Developing Countries"

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Testimony by
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Thank you Chairman Boucher, Ranking Member Upton and the rest of the members of the Subcommittee on Energy and Air Quality. I am Christopher Wenk, Senior Director of International Policy for the U.S. Chamber of Commerce, the world's largest business federation representing more than three million businesses and organizations of every size, sector and region. I appreciate this opportunity to share the Chamber's views on Competitiveness Concerns and Prospects for Engaging Developing Countries related to greenhouse gas emissions legislation.

It is important to note that international cooperation to develop and implement technologies that reduce greenhouse gas emissions is the most important factor to consider in efforts to slow the growth of and ultimately reduce greenhouse gas emissions.

As the Chamber described in both our March 19 letter to Chairmen Dingell and Boucher and our April 16 letter to Ranking Member Barton and then-Ranking Member Hastert, a combination of technology research and development to reduce greenhouse gas emissions and international cooperation to implement new technologies among developed and developing nations is the best — and only — policy approach to address greenhouse gas emissions.

My expertise is in trade policy. Rather than the science of climate change and the state of research and development, I will confine my testimony to the international trade impacts of the strategies, tactics, and proposals presented for discussion in the "Climate Change Legislation Design White Paper Competitiveness Concerns/Engaging Developing Countries (White Paper)."

In short, the Chamber believes the White Paper demonstrates the limits on what Congress or the Bush administration can do to compel America's trading partners to comply with a U.S.-only plan to address greenhouse gas emissions.

Further, the Chamber strongly believes that international trade is vital to the economic interests of the United States and plays a driving role in the expansion of economic opportunities for American workers, farmers, and businesses. Moreover, the Chamber believes that domestic measures to force trading partners to share this domestic goal will not only have a negative impact on U.S. competitiveness, but also could have a large economic impact on several developing countries.

The White Paper touches on three alternatives to incent or compel developing nations to comply with a domestic greenhouse gas regulatory regime in an effort to, as the White Paper asks on page 14, "limit their GHG emissions and simultaneously protect… U.S. industry in global trade markets[.]"

The Chamber believes that trade policy tools cannot be used successfully to force international partners to meet domestic objectives. In fact, the ideas presented in the White Paper may be perceived by our trading partners as barriers to trade. International trade is an important component of the U.S. economy, and a domestic greenhouse gas emissions trading scheme that forces international trading partners to comply will have significant repercussions for U.S. firms. Simply put, the Chamber strongly supports free trade. Domestic environmental policy that forces America's trading partners to comply with U.S. requirements and protect our domestic industry will face a significant backlash for American manufacturers and businesses.

Trade, Growth, and Prosperity

Over the years, the Chamber has helped lead the business community's effort to make the case for initiatives to expand trade, including global trade negotiating rounds under the purview of the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade, as well as bilateral and regional free trade agreements (FTAs). The Chamber does so because U.S. businesses have the expertise and resources to compete globally — if they are allowed to do so on equal terms with our competitors.

The facts show that while some are hurt — and should be helped — the overwhelming majority of Americans derive great benefits from international trade and investment. America's international trade in goods and services accounts for roughly 27% of the country's GDP. As the Office of the U.S. Trade Representative (USTR) has pointed out, the combined effects of the North American Free Trade Agreement (NAFTA) and the Uruguay Round trade agreement that created the WTO have increased U.S. national income by $40 billion to $60 billion a year. In addition, the lower prices for imported goods generated by these two agreements mean that the average American family of four has gained between $1,000 and $1,300 annually in spending power — an impressive tax cut, indeed.

Nationwide, our exports directly support 12 million good-paying jobs and indirectly support millions of other jobs. Imports keep inflation low and expand consumer choice and quality. More than 57 million Americans are employed by businesses that engage in international trade, and the benefits reach every state in our nation. A fact commonly overlooked is that a staggering 97% of U.S. exporters are small or medium-sized companies, which create three out of four new jobs. These companies depend on open foreign markets for growth and are the backbone of the U.S. economy.

When Trade Promotion Authority (TPA) lapsed in 1994, the international trade agenda lost momentum. The Uruguay Round was implemented, but no new round of global trade negotiations was launched as the 1990s wore on. Moreover, the United States was compelled to sit on the sidelines while other countries and trade blocs negotiated numerous preferential trade agreements that put American companies at a competitive disadvantage.

As the Chamber pointed out during its 2001-2002 advocacy campaign for approval of TPA, the United States was party to just three of the roughly 150 Free Trade Agreements (FTAs) in force between nations at that time. Since then, the United States has approved FTAs with an additional dozen countries, and they are bringing substantial economic benefits. Today, just under half (43%) of American exports go to markets where they enter duty free thanks to these FTAs. Only a third of U.S. exports enjoyed this advantage back in 1994, the year NAFTA came into force. With sales to our newest FTA partners growing twice as fast as U.S. export growth to the rest of the world; it's no surprise that U.S. exporters are enjoying robust growth.

The Chamber was very pleased that Congress passed the U.S.-Peru Trade Promotion Agreement with strong-bi-partisan support last fall. However, we would also like Congress to consider the pending trade agreements with Colombia, Panama and South Korea before the end of this year.

Climate Change Through Trade Liberalization, Not Trade Restrictions

Without question, there are serious trade implications to the current debate over the various climate change proposals on the table that should give everyone pause. As noted on page 13 of the White Paper, "there is a general expectation, that a WTO (World Trade Organization) challenge is likely regardless of what approach Congress takes."

In this time of economic uncertainty, the Chamber urges Congress to not risk provoking a trade war with countries like China and India, where the U.S. exported almost $83 billion worth of goods combined in 2007. Otherwise, the United States could face retaliation on our exports as was the case when the WTO ruled against the Foreign Sales Corporation (FSC)/Extraterritorial Income (ETI) legislation and the Byrd amendment where billions of dollars of U.S. exports, on a broad range of products, were subject to retaliation.

U.S. agriculture policy has been increasingly scrutinized by the WTO. Most recently, Brazil scored a huge victory at the WTO over America's cotton subsidies. Brazil has reserved the right to impose annual sanctions of up to $4 billion on the United States. If the U.S. fails to comply with the WTO ruling, Brazil has said it would target American goods, as well as trademarks, patents and commercial services, for retaliation. One of the Chamber's key messages today is that there is no guarantee that our trading partners will not retaliate against us in the WTO, or otherwise, based on actions by Congress on issues such as agriculture policy, trade policy, tax policy or, more importantly for today's hearing, environmental policy.

Further, the Chamber also believes that trade policy can contribute in a meaningful way to efforts on climate change through trade liberalization and not trade restrictions. For example, last fall, the United States and the European Union submitted a forward leaning proposal as part of the on going Doha Round of WTO negotiations to increase global trade in and use of environmental goods and services. It would place priority action on technologies directly linked to addressing climate change and energy security.

According to USTR, the U.S.-EU initiative proposes to eliminate tariff and non-tariff barriers to environmental technologies and services through a two-tiered approach: 1) first-ever WTO agreement on worldwide elimination of tariffs on a specific list of climate friendly technologies recently identified by the World Bank; and 2) higher level of commitment on the part of developed and the most advanced developing countries to eliminate barriers to trade across a broader range of other environmental technologies and an array of environment-friendly services.

Significantly, WTO Members currently charge duties as high as 70% on certain environmental goods, impeding access to and use of these important technologies. A recent World Bank study on climate and clean energy technologies suggests that by removing tariffs and non-tariff barriers to key technologies, trade could increase by an additional 7-14% annually. A corresponding increase in use of such technologies and services could contribute importantly to global efforts to address climate change and energy security.

The World Bank report also concludes that liberalizing trade in these technologies could facilitate more high-end technology investment. Not surprisingly, countries that trade more environmental goods either have less pollution or consume energy more efficiently, or both, according to separate data on environmental indicators available from the World Bank and World Resources Institute.

Climate Change and Developing Countries

Question 3 in the White Paper asks how closely the link in timing should be for a domestic cap-and-trade regime and "policies to induce developing countries to limit their GHG emissions[.]"

The timing question presupposes that Congress can, in fact, implement policies to induce developing countries to limit greenhouse gas emissions. Timing is not the critical question. Rather, the fundamental question is whether the Congress can—through trade policy—force developing nations to accept domestic U.S.

environmental policy goals. The Chamber believes that Congress cannot force foreign governments to act—indeed one of the major failures of the 1997 Kyoto Protocol was its failure to include binding emissions caps on developing nations—and that such efforts by Congress would have significant impacts on U.S. trade.

Question 4 in the White Paper asks whether there should be a distinction between "least developed" and "developing" countries.

From a trade perspective, least developed and developing nations are treated differently. From an energy and environment side, least developed and developing nations could be treated differently. However, neither least developed nor developing nations can be forced to comply with a domestic greenhouse gas emission regulatory regime without possible significant risks to not only U.S. exporters, but also to the economies of developing countries.

For example, S. 2191 – legislation to cap greenhouse gas emissions sponsored by Sen. Lieberman and Warner – exempts countries that are *de minimus* emitters from having to buy import allowances. However, several developing countries besides China and India could potentially be considered significant emitters. These countries include Nigeria, Ecuador, Indonesia, Malaysia, and South Africa to name a few. These countries also export to the United States raw and intermediate products like oil and minerals that would require them to purchase import allowances. What impact would the imposition of the import allowance requirement have on the economies of these countries and their economic development prospects?

Conclusion

In conclusion, there are serious trade implications to the climate change proposals before you that should not be overlooked. During these times of economic uncertainty, U.S. exporters are depending on Congress to carefully weigh legislative proposals on climate change and not steam ahead with legislation that could negatively impact U.S. exports or competitiveness.

Question 6 in the White Paper looks at a post-Kyoto agreement under the United Nations Framework Conventions on Climate Change. The answer for what the next agreement should look like is the same as the answer for what Kyoto should have looked like; any international agreement on greenhouse gas emissions must incorporate developed and developing nations. Underscoring this point, China has overtaken the United States as the world's largest greenhouse gas emitter.

Once again, the Chamber is grateful to the Subcommittee for asking important questions about the international and competitiveness impacts of domestic climate change legislation. However, I believe that the hearing today will raise many more questions than it will resolve. I would also encourage the leadership of this

Subcommittee and the full Energy and Commerce Committee to work with your colleagues on Ways and Means – the committee of jurisdiction over international trade issues – to explore the issues raised in the White Paper and this hearing.

I would also reiterate that the Chamber encourages adherence to the following six core principles as a comprehensive structure to manage climate change in a way that recognizes that governmental action should protect our environment, quality of life, and national security:

(1) Preservation of American jobs and the competitiveness of U.S. industry;

(2) Promotion of the accelerated development and deployment of greenhouse gas reduction technology;

(3) Reduction of barriers to the development of climate-friendly energy sources;

(4) Maximum flexibility;

(5) International, economy-wide solution with minimal impact on industry and regional economies, which includes developing nations; and

(6) Promotion of energy conservation and efficiency.

Finally, the Chamber believes that trade expansion is an essential ingredient in any recipe for economic success in the 21st century. If U.S. companies, workers, and consumers are to thrive amidst rising competition, new trade agreements such as the Doha Round of WTO negotiations and the various FTAs cited above will be critical. In the end, U.S. business is quite capable of competing and winning against anyone in the world when markets are open and the playing field is level.

Once again, the Chamber greatly appreciates the opportunity to testify today. The Chamber stands ready to work with you on these and other challenges in the year ahead. Thank you very much.